

# SUBCOMMITTEE NO. 1 on Education



**Subcommittee No. 1**  
**Chair, Jack Scott**  
**Member, Bob Margett**  
**Member, Joe Simitian**

**Monday, April 3, 2006**  
**1:30 pm**  
**Room 113, State Capitol**

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**ITEM 6110 DEPARTMENT OF EDUCATION****ISSUE 1: California High School Exit Exam (CAHSEE) Student Assistance Grants  
(6110-204-0001)**

**DESCRIPTION:** The Governor proposes **\$40 million** in 2006-07 – an increase of **\$20 million** above the current year amount – to provide intensive instruction and services to assist students in the graduating class of 2007 who have not yet passed the CAHSEE. The Governor also proposes to continue **\$52.8 million** in new special education funding in 2006-07 that *may be* utilized to assist students with disabilities pass the CAHSEE.

**BACKGROUND:**

The graduating class of 2006 will be the first group of students in California that must pass the California High School Exit Exam (CAHSEE) in order to graduate from high school. Students begin taking the exam in 10<sup>th</sup> grade. The exam includes two tests – English Language Arts and mathematics.

The latest figures from CDE , which reflect two administrations of CAHSEE in Fall 2006, indicate that approximately **11.1 percent** of high school seniors in the class of 2006 have not passed either the English language arts exam or the mathematics exam. The percentage of seniors who have not passed is higher for some groups of seniors, for example 30.9 percent of English learners and 18.4 percent of economically disadvantaged students have not passed either of these exams. [See Appendix A.]

Students with disabilities are not included in the latest report, according to CDE, because they are exempted from passage of CAHSEE for one year following passage of Chapter 3, Statutes of 2006 (SB 517/Romero). The most recent data indicates that 42 percent of students with disabilities had not passed either of the CAHSEE exams.

While passage rates are likely to increase with results from the final three administrations of CAHSEE in February, March and May 2006, there are currently **47,925 students** who have yet to pass both sections of the CAHSEE. This total does not include special education students, because they were removed from the analysis following passage of Chapter 3, Statutes of 2006.

**Current Program:** The 2005-06 budget provides **\$20 million** in ongoing, first-time funding to provide intensive instruction and services to assist students in the class of 2006 pass the CAHSEE. Chapter 234, Statutes of 2004 (AB 128/Committee on Budget) added these funds to the budget and defined intensive instruction and services that may include: hiring additional teachers, individualizing instruction, providing teacher training, and offering individual or small group instruction.

Under the current program, intensive instruction and services may be provided during the regular school day provided they do not supplant core curriculum or physical education. As a condition of funding, school districts must assure that each eligible pupil receives a diagnostic assessment and intensive instruction and services based upon that assessment. School districts are also

required to provide data on the number of students served, types of services provided and the passage rates for students.

The current program provides \$600 per student for 33,330 eligible pupils, defined as 12<sup>th</sup> graders in the graduating class of 2006 who have not passed one or both sections of the CAHSEE. These funds were intended to build upon the \$400 per student available from existing supplemental instruction programs. The current program also gives priority in funding to schools with the highest proportion of students who have not passed CAHSEE.

The 2005-06 budget also contains **\$52.8 million** in special education funds that *may be* utilized to assist students with disabilities pass the CAHSEE. Students receiving these funds are not eligible for these services and are not considered eligible for the \$20 million in CAHSEE intervention funds.

Funding in the current year has been insufficient to provide funds for all eligible students. According to the most recent estimates from CDE, a total of 73,270 seniors were found to be eligible for funding in 2005-06, more than double the 33,330 seniors actually funded. In total, 625 schools districts, county offices of education and independent charters were eligible for funding and 347 were funded. While 1,747 schools applied for funding, only 742 schools were funded.

**Governor's Budget:** The Governor proposes **\$40 million** in ongoing funding – double the current year amount – to provide intensive intervention to students in the graduating class of 2007 who have not yet passed the CAHSEE. The Governor proposes \$631 per student, which reflects the current year rate adjusted for COLA, and funds a total of 63,391 eligible students in the graduating class of 2007.

The Governor's budget-year proposal establishes separate rankings for comprehensive high schools and all other high schools in determining funding priority, setting aside **\$35 million** for students in comprehensive high schools and **\$5 million** for students in continuation, juvenile court, county community day, adult education and alternative schools.

The Governor also proposes continuation of another **\$52.8 million** in special education funds that *may be* utilized to assist students with disabilities pass the CAHSEE.

**LAO Recommendations:** The LAO recommends approval of the additional **\$20 million** in 2006-07 for remedial instruction for students who have not passed the CAHSEE in 2006-07. The LAO believes that, given the importance to students, additional resources are warranted to assist students who have failed the exam. This is the only new or expanded program the LAO recommends funding in 2006-07.

The LAO also recommends that the Legislature adopt trailer bill language that would allow up to ten school districts to test comprehensive approaches to assisting students pass the CAHSEE. The LAO points out that the **\$40 million** proposed for intensive instruction for 12<sup>th</sup> graders who have not yet passed CAHSEE, builds upon another **\$177 million** in ongoing funds already included in the budget for supplemental instruction for students in grades 7 through 12. These

supplemental instruction funds are also intended to help students pass the CAHSEE. Districts receive \$3.87 per student for supplemental instruction, which must be in addition to services provided in the regular school day – before or after school, summer school and Saturdays.

### COMMENTS:

According to DOF, the Administration intends to fund all eligible students in 2006-07 at a rate of \$631 per student. However, CDE estimates that 73,270 students were eligible for funding in 2005-06. The Governor would need to provide a total of **\$46.2 million** in 2006-07 -- an additional **\$6.2 million** -- to provide funding for all eligible students who are not receiving special education services.

	<b>Eligible Students</b>	<b>Estimated Cost (\$631/student)</b>
Governor's Budget	63,391	\$40.0 m
Estimated Regular Education	73,270	\$46.2 m
Estimated Special Education	26,667	\$16.8 m
Estimated Total Eligible Students	99,937	\$63.1 m

The Governor would need to provide a total of **\$63.1 million** – an additional **\$23.1 million** – to provide funding for all eligible students, including students receiving special education services are included in totals.

The **\$52.8 million** in special education funds the Governor proposes to continue in 2006-07 to assist students with disabilities pass CAHSEE will be discussed further at the next Subcommittee hearing.

### SUGGESTED QUESTIONS:

1. *For DOF: What level of funding is needed in the budget year to provide intensive assistance to all eligible students in 2007? Does DOF accept the latest CDE/HumRRO estimates of eligible pupils as the basis for funding in 2007?*
2. *Would students from the class of 2006 who have still not passed CAHSEE at the end of the current school year be eligible for CAHSEE assistance funding in 2006-07?*
3. *For DOF: What is the need for creating two separate funding sources for comprehensive high schools and for alternative schools if DOF intends to fund all eligible students?*
4. *For DOF: The \$40 million proposed by the Governor in 2006-07 is tied to students in the class of 2007 who have not yet passed the CAHSEE? Does the Administration also intend to provide funding for students in the class of 2006 who ultimately fail all administrations of CAHSEE in 2006?*
5. *For DOF and CDE: Is \$631 per student an appropriate level of funding for CAHSEE intervention, especially when considered together with the \$400 per student available for supplemental instruction.*
6. *For CDE: Has the \$70 million appropriated, in the current year, for CAHSEE assistance been well utilized by schools and is there evidence it has been effective in increasing passage rates?*

**ISSUE 2: Governor's Initiative -- School Enrichment Block Grants (6110-262-0001)**

**DESCRIPTION:** The Governor proposes **\$100 million** in ongoing funding for School Enrichment Block Grants to support the recruitment and retention of teachers and principals in schools in the lowest three deciles of the Academic Performance Index (API). The Governor proposes an additional **\$3 million** in one-time funds to continue a state level contract to assist these low performing schools in recruiting highly qualified teachers.

**BACKGROUND:**

**Current Program:** Chapter 491, Statutes of 2005 (SB 65/Budget Committee) provided up to \$49.5 million in one-time funds from the Proposition 98 Reversion Account, as a part of final 2005-06 budget agreements between the Legislature and the Administration. Of this amount, \$3 million was allocated to a county office of education to contract with an outside entity to recruit highly qualified teachers to schools in deciles 1-3 of the API.

According to CDE, funding agreements for the new Teacher Recruitment and Student Support Grants authorized by Chapter 491 were due on March 8, 2006. Upon receipt of all required documentation, funding should be underway to school districts and charter schools. Based upon current applications, CDE estimates that schools will receive approximately \$23.73 per student.

**Governor's Budget:** The Governor proposes to expand, and permanently continue, block grants funded with up to **\$49.5 million** one-time funding in the current year for the purpose of providing teacher and administrator training, support, recruitment and retention, as well as student support services. Specifically, the Governor proposes **\$100 million** in ongoing funds in 2006-07 to provide School Enrichment Block Grants to school districts and charter schools in order to support the recruitment and retention of teachers and principals in schools in the lowest three deciles of the Academic Performance Index (API).

Funding is proposed at the rate of \$50 per pupil with minimum school site grants of \$5,000. As indicated below, the Governor's proposed School Enrichment Block Grants would provide \$50 per school, which translates to between **\$26,750 and \$47,400** per school type.

Type of School	Amount Per School (\$50/student)
Elementary School (Average: 535 Students)	\$26,750
Middle School (Average: 871 Students)	\$43,550
High School (Average: 948 Students)	\$47,400

The Governor's proposed School Enrichment Block Grants can be expended for the general purposes of improving the school environment and culture, as detailed in budget bill language, and may include:

- Assuring a safe and clean environment;
- Forgiving student loans for teachers and administrators;

- Recruitment and retention activities, including differential compensation for highly qualified teachers and highly skilled principals;
- Payment of signing bonuses to teachers and principals;
- Recognition pay to teachers and principals;
- Housing and relocation assistance to teachers and principals;
- Recruitment and retention training for human resources professionals; and
- Professional development and leadership training for teachers and principals.

The DOF indicates that while this program was funded with one-time dollars in 2005-06, the Administration intended the program to be an ongoing program for schools in the lowest three deciles.

The Governor also proposes to continue **\$3 million** in one-time funds from the Proposition 98 Reversion Account in 2006-07 for a statewide contract to recruit highly qualified teachers to schools in the lowest three deciles of the API.

**LAO Recommendation:** The LAO recommends rejecting all of the Governor's new program proposals, including this proposal, because they: (1) do not address the state's structural budget imbalance and serious fiscal pressures facing school districts, such as retiree health costs and declining enrollment; (2) take a step backwards for categorical reform; (3) have basic policy flaws; and (4) contain virtually no planning, reporting, evaluation, or accountability components.

#### **COMMENTS:**

**Need for Highly Qualified Teachers:** According to the Superintendent of Public Instruction, California will need to hire an additional 100,000 teachers over the next ten years and this funding will provide "incentives to help recruit and retain experienced teachers at the schools that need them the most." Additionally, under the federal No Child Left Behind (NCLB) Act of 2001, all educators must become "highly qualified" by the end of the 2005-06 school year.

**Additional LAO Comments:** The LAO notes that without supplanting provisions for this proposal, new funds could simply be used to pay for existing programs and would not assure funding for new programs. The LAO also notes that the new program contains no requirements for expenditure or outcome data, or program evaluation.

**Current Year Funding Available:** Funding for the Teacher Recruitment and Student Support Program (TRSSP) grants, authorized by Chapter 39, Statutes of 2005, are just recently being allocated to school districts and charter schools. It is unclear how much of the **\$49.5 million** in the current year has been expended and whether an additional **\$100 million** in funding would be needed to continue the program in the budget year.

In addition, because the **\$3 million** for the statewide teacher recruitment and retention contract in the current year has not yet gone out, it is unlikely that another \$3 million is needed in the budget year for this purpose.

**Changes in Permissible Uses in Funding:** There are significant differences in the permissible uses of funding between the Teacher Recruitment and Student Support grants authorized in the 2005-06 budget and the Governor's proposed School Enrichment Block Grants for 2006-07. The proposed School Enrichment Block Grants exclude support services for students and teachers; small group instruction; and time for teacher planning and collaboration from the list of permissible uses of block grant funding. The proposed School Enrichment Block Grants adds other permissible uses, including: student loan forgiveness, signing bonuses, housing assistance and relocation costs, professional development and leadership training for teachers and principals, as well as training for human resource professionals in effective recruitment and retention.

**[Budget Bill Language]**

**OUTCOME:**

**ISSUE 3: Governor's Initiative - Beginning Teacher Support and Assessment (BTSA)  
(6110-244-0001)**

**DESCRIPTION:** The Governor proposes **\$65 million** to establish a third year of BTSA funding for beginning teachers serving in schools ranked in the lowest three deciles of the Academic Performance Index (API).

**BACKGROUND:**

**Existing Program:** BTSA is a teacher induction program that currently serves approximately 25,000 first and second year teachers statewide. Funding for the BTSA is now contained in the Teacher Credentialing Block Grant as the result of categorical program consolidation and reforms enacted in recent years. BTSA is the only program included in the Teacher Credentialing Block Grant. Total funding for the Teacher Credentialing Block Grant in 2005-06 is **\$87.9 million**.

**Governor's Budget:** The Governor proposes to increase funding for the Teacher Credentialing Block Grant by **\$65 million** in 2006-07 to establish a third year of BTSA funding for beginning teachers serving in schools ranked in the lowest three deciles of the Academic Performance Index (API). As proposed, the additional year of induction support would emphasize diagnostic student assessments, differentiated instruction, classroom management, and parental involvement. The **\$65 million** in additional BTSA funding proposed by the Governor has two components:

- **New Teachers (\$24 million).** First priority for funding would be to provide a year of *mandatory* support for teachers in their third year of teaching. Funding for third year teachers would be provided at the full BTSA rate of \$3,865 per teacher. DOF estimates that all third year teachers in decile 1-3 schools would participate in the additional year of BTSA since it would be required.
- **More Experienced Teachers (\$41 million).** Second priority would be for some additional BTSA-type training for more experienced teachers (beyond their third year of teaching) who are new to decile 1-3 schools and who *volunteer* to participate in a year of BTSA training. These more experienced teachers would receive funding at half the full rate or \$1,933 per teacher. DOF estimates that approximately 25 percent of these teachers would choose this additional BTSA training.

**LAO Recommendations:** The LAO recommends rejecting all of the Governor's new program proposals, including this proposal, because they: (1) do not address the state's structural budget imbalance and serious fiscal pressures facing school districts, such as retiree health costs and declining enrollment; (2) take a step backwards for categorical reform; (3) have basic policy flaws; and (4) contain virtually no planning, reporting, evaluation, or accountability components.

**COMMENTS:**



The Governor's BTSA proposal establishes a new, ongoing program component with an existing program. While BTSA is considered an effective program, the program provides services to new, fully credentialed teachers. However, as the LAO points out, there are relatively high percentages of teachers at low-performing schools *without* full credentials, e.g. emergency permits or intern credentials. In this scenario, the new BTSA resources would not reach the teachers who need assistance the most.

[Budget Bill Language.]

**OUTCOME:**

**ISSUE 4: Governor's Initiative – Fruits and Vegetables Grants (6110-217-0001)**

**DESCRIPTION:** The Governor proposes **\$18.2 million** in ongoing funding in 2006-07 for the California Fresh Start Pilot Program in order to improve the supply of fruits and vegetables included in school meals served to K-12 students. In addition, the Governor proposes a General Fund increase of **\$174,000** to fund two support positions at CDE for the pilot program beginning in 2006-07.

**BACKGROUND:**

The 2005-06 budget provides \$18.2 million in one-time funds for the California Fresh Start Pilot Program established by Chapter 236, Statutes of 2005 (SB 281/Maldonado). This program supplies “nutritious” fruits and vegetables to K-12 schools by providing an additional 10 cents for school breakfast meals in order provide one or two servings of fruits and/or vegetables. If schools already provide two servings at breakfast, then funds can be used to purchase fruit and/or vegetable servings for other school meals or after-school snacks.

Nutritious fruits or vegetables are defined as including fresh and *canned* fruits and vegetables, but cannot include juice or deep-fried varieties.

Funding is available for schools in school districts and charter schools. Total funding for the program is tied to the number of school breakfast meals served by schools. Ninety percent of program funds must be spent on direct purchase of fruits and vegetables; ten percent is set-aside for program overhead.

Of the \$18.2 million provided in 2005-06, \$300,000 was set-aside for allocation to a county office of education to contract for an independent evaluation of the pilot program.

The Governor proposes **\$18.2 million** in 2006-07 in order to provide ongoing funding for the California Fresh Start Pilot Program. The Governor's proposal continues funding at the current year level assuming full participation by the 1,100 districts and charter schools that together serve approximately 180 million breakfast meals annually.

The Governor's January budget also proposes an increase of **\$300,000** in state operations for the Department of Education in 2006-07 to handle workload associated with administration of the California Fresh Start Pilot Program and implementation of school nutrition standards pursuant to Chapter 235, Statutes of 2005. Of this amount, the Governor proposes a **\$100,000** General Fund increase associated with two support positions at CDE for the Fresh Start Pilot Program. [The Governor's April Finance Letter requests an additional **\$74,000** in General Funds for these positions.] The remaining **\$200,000** requested in January provides increased reimbursements from food vendors that elect to have their products certified under the new state nutrition standards established by Chapter 234.

**LAO Recommendation:** The LAO recommends rejecting all of the Governor's new program proposals, including this proposal, because they: (1) do not address the state's structural budget imbalance and serious fiscal pressures facing school districts, such as retiree health costs and

declining enrollment; (2) take a step backwards for categorical reform; (3) have basic policy flaws; and (4) contain virtually no planning, reporting, evaluation, or accountability components.

#### **COMMENTS/RECOMMENDATIONS:**

**Availability of Current Year Funding to Continue Program:** *Staff recommends* that CDE and DOF determine if it is possible to reappropriate unexpended, one-time funding from 2005-06 to implement the California Fresh Start Pilot Program in 2006-07. The CDE has only recently been able to allocate some of \$18.2 million in 2005-06 funding to school districts and charter schools, due to delays associated with the approval of emergency regulations for this new pilot program. Due to these delays, it is likely that less than one-quarter of the \$18.2 million will be expended by the end of the current year.

In addition, this program was established as a pilot program and funded with one-time dollars in 2005-06. Funds were set-aside for an evaluation of the pilot program. The State Board has adopted an evaluation proposal, but an evaluation has not been commenced. *Staff notes* it seems premature to establish ongoing funding for this program until the program has been fully implemented and the results of the pilot evaluation are known.

**Alternative CDE School Meal Proposal:** The CDE supports additional funding to increase the state meal program rate, which the department asserts has remained at virtually the same level over the last fifteen years. CDE maintains that school meal programs do not always receive a statutory COLA. In contrast, the DOF maintains that while school meal programs did not receive a COLA in the early 1990s, the meal program has benefited from the same COLA increases that statutory programs have received the last fifteen years.

The CDE recommends increasing the state meal program reimbursement from approximately 14 cents to 21 cents per meal in order to reflect the costs of foregone COLAs for school meals in prior years. This proposal would cost **\$39 million** and would improve the quality of school meals overall by providing adequate reimbursements for food costs, supplies, equipment, and labor associated with providing school meals.

The state meal program supplements the federal funds school districts receive for free and reduced price lunches. According to CDE, fresh fruits and vegetables generally cost more to provide than frozen or canned varieties. *Staff notes* that some increase to the school meal program might be a more effective and efficient way to augment funding for schools to improve the quality of school meals. These funds could be used to purchase more nutritious foods including fresh fruits and vegetables, for all meals, and pay for some of the food service infrastructure some schools may need to provide more nutritious meals for all students. In addition, these additional funds could be used to meet the new, more comprehensive nutrition standards currently being implemented by schools.

#### **OUTCOME:**

### **ISSUE 5: Governor's Initiative – Physical Education Grants for K-8 Schools (6110-260-001)**

**DESCRIPTION:** The Governor proposes **\$85 million** in ongoing funding for two new programs to improve physical education for students in elementary and middle schools commencing in 2006-07. The Governor's proposal does not include funding for high schools.

#### **BACKGROUND:**

The Governor proposes a total of **\$85 million** in 2006-07 to improve physical education and reduce childhood obesity for elementary and middle school students. The Governor's proposal includes two components:

**Physical Education Block Grant.** The Governor proposes **\$60 million** in physical education block grants to school districts and charter schools for the purpose of increasing physical activity and implementing standards-aligned physical education programs in elementary and middle schools. Funding may be used for hiring qualified staff, reducing class size, and providing standards-aligned professional development and curricula.

Funding will provide minimum grants of \$3,000 for schools with 10 or fewer students and \$5,000 for schools with 11 to 420 students. All remaining funds would be allocated, on a per student basis, to school sites with more than 420 students. DOF estimates funding at roughly \$12.40 per student, which would provide funding of approximately \$6,634 a year for the average size elementary school and \$10,888 for the average middle school.

<b>Type of School</b>	<b>Amount Per School (\$12.40/student)</b>
Elementary School (Average: 535 Students)	\$6,634
Middle School (Average: 871 Students)	\$10,800

**Physical Education Teacher Incentive.** The Governor proposes **\$25 million** to provide incentive grants to 1,000 elementary and middle schools to hire credentialed physical education teachers. Incentive grants would provide \$25,000 per school site, which would be selected randomly with considerations for school type, size, and location. Physical education is typically provided by teachers with a Multiple Subjects Credential in elementary school. This incentive program is intended to increase the number of teachers with physical education credentials on elementary school and middle school campuses.

The Administration has drafted bill language for each of the Governor's two physical education proposals. To date, no author has been found for these bill proposals.

**LAO Recommendation:** The LAO recommends rejecting all of the Governor's new program proposals, including this proposal, because they: (1) do not address the state's structural budget imbalance and serious fiscal pressures facing school districts, such as retiree health costs and declining enrollment; (2) take a step backwards for categorical reform; (3) have basic policy flaws; and (4) contain virtually no planning, reporting, evaluation, or accountability components.

**COMMENTS:**

The LAO notes that the proposed PE Teacher Incentive program protects against supplanting, but the PE Block Grants do not contain supplanting provisions. Therefore, new funds could be used to pay for existing programs instead of program expansion. The LAO also notes that the new program contains no requirements for a local spending plan, expenditure or outcome data, or program evaluation.

The Governor's proposal presumes that there is a shortage of qualified physical education teachers. However, according to the LAO, there is no evidence of such a shortage. In addition, the proposal assumes a decline in the number of physical education course offerings in elementary and middle schools. However, according to the LAO, the number of physical education courses in middle schools has actually increased slightly since 2001-02.

The LAO also notes that the Governor's physical education proposals are not well integrated with the existing after-school programs, which emphasize physical activity and recreation.

[BBL and TBs]

**OUTCOME:**

**ISSUE 6: Governor's Initiative – Arts and Music Block Grant for K-8 Schools  
(6110-265-0001)**

**DESCRIPTION:** The Governor proposes **\$100 million** in ongoing funding to establish a new statewide Arts and Music Block Grant program for elementary and middle schools beginning in 2006-07. The Governor's proposal does not provide funding for high schools.

**BACKGROUND:**

The Governor proposes **\$100 million** in 2006-07 to provide an Arts and Music Block Grant to K-8 schools in school districts, county offices of education and charter schools. The Governor's proposal does not include funding for high schools.

The new block grant would provide funding for standards-aligned fine arts instruction (art, dance, music, theater/drama) for students in elementary and middle schools. Funding may be used for a variety of purposes to further the state's Visual and Performing Arts standards, including:

- hiring additional staff;
- purchasing of new materials, books, supplies and equipment; and
- providing staff development.

The Governor's proposal would provide funding at a level of \$20 per pupil, with minimum grants of \$3,000 for schools with 10 or fewer students and \$5,000 for schools with more than 10 students. At \$20 per pupil, the average sized elementary school would receive \$10,700 and the average middle school would receive \$17,400 a year for this new program.

Type of School	Amount Per School (\$20/student)
Elementary School (Average: 535 Students)	\$10,700
Middle School (Average: 871 Students)	\$17,400

**LAO Recommendation:** The LAO recommends rejecting all of the Governor's new program proposals, including this proposal, because they: (1) do not address the state's structural budget imbalance and serious fiscal pressures facing school districts, such as retiree health costs and declining enrollment; (2) take a step backwards for categorical reform; (3) have basic policy flaws; and (4) contain virtually no planning, reporting, evaluation, or accountability components.

**COMMENTS:** There is currently no categorical program or other dedicated funding stream for supporting music and arts programs in K-12 schools. The purpose of the Governor's proposal is to restore arts and music programs to schools, which have reportedly declined due to fiscal pressures on schools. The Governor's proposal does not include funding for high schools, although the Administration has expressed intent to expand Arts and Music grants to all K-12 schools, including high schools, in the future. This has importance since a visual and performing arts class is included in the A-G requirements for entering California public universities.

The LAO notes that without supplanting provisions for this proposal, new funds could simply be used to pay for existing programs and would not assure funding for new programs. The LAO also notes that the new program contains no requirements for a local spending plan, expenditure or outcome data, or program evaluation.

The Governor's proposal presumes a reduction in music and arts offerings in elementary and middle schools that should be restored. However, the LAO indicates that the number of music and arts courses remained virtually constant since 2001-02.

[BBL only]

**OUTCOME:**

**ISSUE 7: Governor's Initiative – Digital Classroom Grant Program (6110-264-0001)**

**DESCRIPTION:** The Governor proposes **\$25 million** to establish a new program intended to eventually provide one-time Digital Classroom Block Grants to classrooms in all K-12 schools. These one-time block grants are intended to advance the effective use of education technology in order to improve classroom instruction and student achievement.

**BACKGROUND:****Governor's Budget:**

The Governor proposes **\$25 million** in 2006-07 to provide one-time Digital Classroom Block Grants to school districts and charter schools for the purchase of education technology and technology related services. Funding would be provided on a one-time basis for individual schools; however, the Department of Finance anticipates that annual appropriations for the program would continue until all classrooms in the state have received funding.

Each school district or charter would receive **\$3,000** per eligible classroom. Funding can be used for one-time expenditures including computer hardware or software, staff development or other technology related expenditures that improve classroom instruction.

As a condition of funding, school districts and charter schools are required to develop a plan, which must be approved by their governing board, specifying how funds will be used in eligible schools. The Superintendent of Public Instruction will allocate statewide funds to locally prioritized schools in school districts of different sizes and types within each of the state's 11 California Technology Assistance Project regions.

The Governor is sponsoring **AB 1548 (Pavely)** to implement this new Digital Classroom Grant program.

**LAO Recommendation:** The LAO recommends rejecting all of the Governor's new program proposals, including this proposal, because they: (1) do not address the state's structural budget imbalance and serious fiscal pressures facing school districts, such as retiree health costs and declining enrollment; (2) take a step backwards for categorical reform; (3) have basic policy flaws; and (4) contain virtually no planning, reporting, evaluation, or accountability components.

**COMMENTS:**

The Governor's proposal would provide technology grants of \$3,000 to at least 292,059 public school classrooms; the number of charter school classrooms are not known. The total cost of funding these classrooms would total **\$877.7 million**. At the rate of \$25 million per year, it would take more than 35 years to fund all classrooms in California. By any analysis, this program would be an ongoing program.

In addition, the LAO believes that the kinds of one-time expenditures the Governor proposes for the Digital Block Grants could be funded through significant new funds that may soon be



available to schools in California from a Settlement Agreement between California consumers and the Microsoft Corporation. CDE estimates that these settlement funds will provide between **\$400 and \$600 million** to eligible schools in California. Eligible schools include schools where 40 percent or more of the students receive free or reduced price lunches. School districts with state-approved technology plans would be qualified to apply for vouchers on behalf of their schools. These settlement funds will be provided in the form of vouchers – half for general purposes and half for software purchases. Schools would have six years to redeem these vouchers. Settlement funds could be available to California schools as early as May 2006, unless appeals in the case are heard, which would delay final settlement another few years.

The LAO also notes that without supplanting provisions for this proposal, new funds could simply be used to pay for existing programs and would not assure funding for new programs. The LAO also notes that the new program contains no requirements for expenditure or outcome data, or program evaluation.

[BBL and AB 1548/Pavley]

#### **SUGGESTED QUESTIONS:**

1. *To CDE: The Governor's technology grant proposal requires the development of district-wide education technology plans. Do school districts already have education technology plans?*
2. *To DOF: How is the Governor's technology grant program integrated with the K-12 High-Speed Network?*
3. *To CDE and DOF: It appears that Microsoft settlement funds, once provided to schools, will cover the same kinds of expenditures covered by the Governor's proposed technology grant. Is this correct?*

#### **OUTCOME:**

**ISSUE 8: K-12 High-Speed Network – Overview of BSA Audit Report**

**Description:** The Bureau of State Audits will present findings and recommendations from the K-12 High-Speed Network audit released in January 2006. This audit was required by the 2005-06 budget in response to numerous concerns about the network.

**Background:** The 2005-06 budget eliminated \$21 million in new funding for the K-12 High-Speed Network due to ongoing and growing concerns about the purpose, governance and funding of the network. In place of these funds, Chapter 491, Statutes of 2005 (SB 65/Committee on Budget and Fiscal Review) authorized \$21 million in funding from previously appropriated funds for the network. Chapter 491 also required an audit of the network by the Joint Legislative Audit Committee. The Bureau of State Audits released its audit of the K-12 High-Speed Network in January 2006.

In its review of the California K-12 High-Speed Network, the Bureau of State Audits (BSA) made a number of findings and recommendations that are outlined below. These findings and recommendations are taken verbatim from the BSA's K-12 High-Speed Network Summary. [See Appendix B for the full text of the Summary.]

**BSA Audit Findings:**

- The State most likely spent less on the building and operation of the High-Speed Network by expanding the existing infrastructure used by the University of California and other higher education institutions than it would have spent for a separate network with comparable services.
- A study conducted by our technical consultant in 2005 found that the High-Speed Network has adequate bandwidth for potential growth but is not overbuilt. Furthermore, our technical consultant found no compelling technical or financial reason to abandon the existing High-Speed Network.
- Because of the lack of specific performance measurements in state law and because the Imperial County Office of Education (ICOE), which currently administers the project is in the early stages of developing a suitable plan for measuring the success of the High-Speed Network, it is difficult to determine whether the network accomplishes the Legislature's goals.
- As of June 30, 2005, the Corporation for Education Network Initiatives in California (CENIC) the nonprofit that built and currently operates the network, held \$13.6 million in High-Speed Network Funds and it expects to receive an additional \$3.6 million related to telecommunication discounts in fiscal year 2005-06. These funds are being used to keep the network operating in fiscal year 2005-06 or are held for future equipment replacement.
- Opportunities exist for ICOE to strengthen its agreements with CENIC to better protect the State's interests. Specifically, its agreements lack detailed service-level agreements, do not ensure that it retains ownership of tangible nonshared assets, and do not ensure that interest earned on advance payments made to CENIC or funds held by CENIC on its behalf accrue to the benefit of the High-speed Network.

- Our legal consultant reviewed the expenditure of funds by CENIC for the High-Speed Network and found that CENIC did not develop or acquire any assets that would have been eligible for protection under patent, copyright, or trade secret law.

**BSA Audit Recommendations:**

- To ensure that the High-Speed Network meets its expectations, the Legislature should consider enacting legislation that prescribes the specific goals and outcomes it wants from the High-Speed Network project.
- To ensure that the High-Speed Network is appropriately managed, Education should ensure that ICOE includes the appropriate service-level agreements in its ongoing contracts with CENIC and other service providers for the High-Speed Network project.
- To ensure adequate protection of the State's interest in tangible, nonshared assets, Education should direct ICOE to transfer ownership of these types of assets to the State.
- To ensure that the interest earned on advance payments made to CENIC, or funds that CENIC holds on ICOE's behalf are used to benefit the High-Speed Network, Education should direct ICOE to amend its agreement with CENIC to stipulate the allowable use of the interest earned.
- Finally, Education should ensure that ICOE develops a method to measure the success of the High-Speed Network.

**ISSUE 9: K-12 High-Speed Network – Budget Update (6110-182-0001)**

**DESCRIPTION:** The LAO will present new fiscal information for the K-12 High-Speed Network revealed by recent audit of the K-12 High-Speed Network conducted by the Bureau of State Audits (BSA). The LAO will provide an update of the 2005-06 budget for the network and an outline of issues and preliminary options for the 2006-07 budget. The Governor does not provide funding for the K-12 High-Speed Internet Network in 2006-07, but the Administration will update its budget proposal at May Revise to reflect the findings and recommendations of the BSA audit.

**BACKGROUND:**

**History:** The Internet 2 network was first developed as a university network used by the University of California, the California State University, as well as, independent universities in California. The Digital California Project (DCP), funded by the University of California (UC), was created to extend this university network to the K-12 school system. A total of **\$92.6 million** was appropriated to UC between 2000-01 and 2003-04 for this purpose.

Through a contract with the Corporation for Education Network Initiatives in California (CENIC), the Digital California Project at UC extended Internet 2 access to 58 county offices of education and most school districts and schools in the state.

**2004-05 Budget:** In 2004-05, the Legislature switched funding for the Internet 2 program from UC to K-12 education. As requested by the Governor, the Legislature appropriated \$21 million to the California Department of Education for the K-12 High-Speed Network, previously known as Internet 2.

A number of concerns were raised during budget discussions in 2004-05 about funding for the K-12 High-Speed Network last year. These concerns focused on the following issues: absence of an information technology plan for this statewide project; lack of a governance structure for the network; uncertain utilization of the K-12 network by LEAs; and unknown cost and revenue data essential for determining the appropriate level of state funding.

As a result of these concerns, provisional language was added to the 2004-05 budget bill that requires CDE to contract with a county office of education to implement the K-12 network, thereby replacing CENIC as the lead agency for the network. (CDE selected Imperial County Office of Education through a competitive bid process.) The language also expressed intent that funding for the network in 2005-06 be accompanied by a governance structure that is specified in statute. In addition, budget bill language requires two reviews developed in consultation with the Department of Finance and the Legislative Analyst – an *independent financial audit* of the K-20 Internet system administered by CENIC and a *program status report* on the K-12 network prepared by the lead agency.

**2005-06 Budget:** The 2005-06 budget eliminated \$21 million in new funding that the Administration proposed for the K-12 High-Speed Network and instead authorized funding at the same level from unused funds previously appropriated for Internet connectivity and network

infrastructure for grades K-12 schools and county offices of education. Budget language requires an audit of the network by the Joint Legislative Audit Committee.

**Governor's Budget:** The Governor does not provide funding for the K-12 High-Speed Internet Network in 2006-07, but does maintain the program item in the budget. Provisional budget language for that item states that budget decisions for the program will be made pending the result of the audit by the Joint Legislative Audit Committee (JLAC). The Governor will update its budget proposal at May Revise to reflect the findings and recommendations of this audit, as recently released by the Bureau of State Audits.

The Administration has identified **AB 1837 (Daucher)** as the measure it is sponsoring to establish a governance structure for the K-12 High-Speed Network program. This bill has not yet been amended to include the Administration's proposed governance provisions.

**LAO Findings & Recommendations:** According to the LAO, the BSA audit addressed four major policy issues facing the Legislature in considering funding for the K-12 High-Speed Network: These issues include: purpose of the network; outcomes for the network; governance of the network; and cost effective ways to support the network.

***Ongoing Concerns:*** The LAO has identified a number of remaining concerns identified by the audit that need to be addressed in continuing support for the network. These four issues involve existing contracts between the education segments and CENIC, including:

- **Prepayment for Services to CENIC.** In 2004-05 and 2005-06, ICAO continued the practice of paying CENIC before it provided services. This practice was also utilized between UC and CENIC before funding was switched to K-12.
- **Interest on Prepayments Accrued to CENIC.** Interest earned on prepayments were transferred to CENIC for their general operations rather than to the K-12 network.
- **Unspecified Service Agreements with CENIC.** The level and nature of services have not been specified in the agreements between CENIC and the education partners.
- **State Funded Assets Held by CENIC.** Assets purchased with state funds are held by CENIC, not the state.

***Recommended Remedies:*** In response, the LAO recommends that any money used for the K-12 High-Speed Network be linked to the following specific conditions:

- A prohibition against prepayment for services;
- A requirement that any interest earned on state monies over the life of the project be used to benefit the projects directly;
- A contract that specifies certain levels of service be provided;
- A requirement that any assets purchased with state monies over the life of the projects be owned by the state; and

- A report that provides detail on all project expenditures.

**2006-07 Budget:** The BSA audit identified a total of \$14.8 million in expenditures for the K-12 High-Speed Network in 2005-06. Based upon these expenditures, the LAO has identified a base budget of **\$14.8 million** for 2006-07. The LAO has identified several possible sources of existing and other funds that could be utilized to pay for the network, including:

- Prior Year Funds (\$10.3 million)
- E-Rate & Teleconnect Fund Refunds (\$4.8 million)
- Educational Telecommunication Funds (\$8 million)
- Microsoft Settlement Funds (\$600 million over six years)

#### **COMMENTS/RECOMMENDATIONS:**

The BSA audit makes several positive findings about the K-12 High-Speed Network that provide support for continuation of the K-12 High-Speed Network. The BSA audit also identifies several areas of concern with governance and funding for the network and makes recommendations for addressing these concerns as the program continues. Additionally, the BSA audit provides new financial data that identifies available funds and existing expenditures.

CDE and DOF are committed to addressing problems raised in the BSA audit and making needed improvements. The Administration will update its budget proposal for the K-12 High-Speed Network at May Revise.

*Staff recommends* that the LAO continue to develop base budget funding for the operations and maintenance of the K-12 High-Speed Network in 2006-07 based upon new information, findings, and recommendations provided by the BSA audit released in January 2006. In developing options, *staff further recommends* that the LAO maximize both prior year funds, E-Rate and Teleconnect Fund refunds, Educational Telecommunication Fund, and Microsoft settlement monies for support of the K12 network in 2006-07.

#### **SUGGESTED QUESTIONS:**

1. *What does the BSA audit tell us about who owns the K-12 High-Speed Network?*
2. *When could the Microsoft Settlement agreement become available to schools?*
3. *How can E-Rate and Teleconnect Fund refunds be accessed to support the K-12 network at the state level?*
4. *Should the state be supporting any functions beyond basic operation and maintenance of the network, e.g., network applications or last mile connections to the network?*

#### **OUTCOME:**

**ISSUE 10: Statewide Data Systems – California Longitudinal Pupil Achievement System (CALPADS)**

**DESCRIPTION:** The California Department of Education (CDE) will provide an update on the development of CALPADS implementation. The Governor's budget proposes **\$940,000** for CALPADS implementation activities in 2006-07, following approval of the CALPADS Feasibility Study Report last fall.

**BACKGROUND:**

**History:** Current law, established by SB 1453 (2002) and SB 257 (2003), requires that CDE contract for the development of a statewide data system to collect, maintain, and report longitudinal student assessment and other data required to meet federal NCLB reporting requirements, to evaluate education programs, and to improve student achievement. This system is known as California Longitudinal Pupil Achievement System (CALPADS).

According to CDE, SB 1453 and SB 257 identify five basic goals for the state's longitudinal data system:

- To provide school districts and CDE access to data necessary to comply with federal NCLB reporting requirements;
- To provide a better means of evaluating education progress and investments over time;
- To provide local education agencies information that can be used to improve pupil achievement;
- To provide an efficient, flexible, and secure means of maintaining longitudinal statewide pupil level data; and
- To promote good data management practices with respect to pupil data systems and issues.

The Department of Education submitted a Feasibility Study Report for CALPADS to the Department of Finance on August 20, 2004. In spite of a number concerns and difficult delays spanning more than one year, the Department of Finance finally approved the FSR in October 2005.

**Governor's Budget:** According to the FSR, implementation and ongoing costs for CALPADS are estimated at \$8.1 million over the next four years. The Governor's Budget proposes an increase of \$940,000 for CALPADS activities in 2006-07 to begin the next phase of CALPADS. Most of this increase is proposed project management, RFP development and an independent project oversight consultant; and for one CDE support position.

**CALPADS Implementation:**

CDE reports that the following components of the CALPADS project have been completed:

- Feasibility study review completed – August 20, 2004
- Feasibility study conditionally approved by DOF – June 24, 2005

- Conditional report completed – October 21, 2005

In order to fully implement the CALAPS system by the December, 2008 target date, the following steps must be completed:

- CDE must complete RFP (target date: June 9, 2006).
- DGS must approve RFP (target date: August 16, 2006).
- CDE must convene an evaluation team (including CDE and other agencies, parties), send out RFP. The evaluation team must evaluate bids and select the vendor (target date: July 30, 2007).
- DOF must approve any special project report (amendment to the FSR), before contract awarded.
- CDE must oversee vendor in its development of the system (target completion date for system to be completed: December 22, 2008).

**COMMENTS:** *Staff notes* that the CALPADS project appears to be a high priority for both the Superintendent of Public Instruction (SPI) and DOF, based upon correspondence that expresses their agencies' mutual support.

***SUGGESTED QUESTIONS:***

1. *To CDE: Is the CALPADS system on track to be fully implemented by December 2008?*
2. *To CDE: Can you provide an updated summary of the estimated costs for completing CALPADS implementation in the next two and a half years?*
3. *To CDE: Now that all LEAs have established individual identifiers for their students, is there any chance that CDE will be able to develop more accurate dropout data before CALPADS is fully implemented? If so, when?*

**OUTCOME:**



**ISSUE 11: Statewide Data Systems – California School Information Services (CSIS) Program**

**DESCRIPTION:** CDE will present a proposal to provide an additional **\$30 million** to LEAs statewide in order to maintain individual student identifiers. The Governor's budget continues funding for maintenance of student identifiers for non-CSIS local educational agencies. The Governor's budget proposes a **\$2.8 million** increase to CSIS for new cohorts of districts participating in the program.

**BACKGROUND:**

CSIS is a multi-year project to develop, implement and manage a statewide student level database and information transfer network. CSIS was authorized by AB 107, as enacted in 1997. The three major goals for CSIS are: 1) to build local capacity to use student information systems to inform education decisions; 2) to enable districts to electronically transfer student records between each other and to higher education institutions; and 3) to assist districts in electronically transmitting state-required reports to CDE.

CSIS is administered by the Fiscal Crisis and Management Assistance Team (FCMAT), which is part of the Kern County Office of Education. Since enactment, the state has spent more than **\$63 million** on the CSIS system. School districts that volunteer to participate in the program receive state incentive funding and technical assistance. CSIS participating districts represent roughly half of the K-12 student population.

While separate from CALPADS, the CSIS project has funded issuance and maintenance of individual student identifiers as required by state law and needed for CALPADS. As of June 2005, all school districts statewide were issued individual, non-personally identifiable student identification numbers for their students.

**Governor's Budget:** The Governor's budget proposes a **\$2.8 million** increase to the California School Information Services Program (CSIS) for new cohorts of districts participating in the program in 2006-07. Specifically, the budget provides **\$1.2 million** for the first year of a new cohort of CSIS participants and **\$1.4 million** for the second year of an existing cohort. The Governor's budget also continues funding for maintenance of student identifiers for non-CSIS local educational agencies, which totals **\$828,000** in 2006-07. These funds provide funding at the rate of 25 cents per student. (CSIS cohort participants receive \$8.41 per student in one-time funds.)

**CDE Proposal to Support District Data:** CDE proposes a **\$30 million** increase in ongoing state funding to LEAs in order to support maintenance of student identifiers and to increase capacity to manage and maintain quality data. The CSIS budget currently provides LEAs, that are not participating in CSIS, with 25 cents per student to maintain their student identifiers. CDE believes this level of support is inadequate to support maintenance of these identifiers that are needed to ensure quality data for CALPADS once implemented. Instead, CDE proposes to

increase funding from 25 cents to **\$5.00 per student** for all LEAs, which would cost the state approximately \$30 million a year.

**COMMENTS:** The Governor's CSIS budget continues the approach of funding new CSIS cohorts for LEAs who volunteer to participate. The Governor also continues funding at 25 cents per student for non-CSIS LEAs to maintain student identifiers, which now totals less than **\$1 million** annually. CSIS LEAs receive no ongoing funding for maintaining identifiers.

While CDE proposes to increase state support for student identifiers to **\$5.00 per student**, or approximately **\$30 million** annually, the Administration is unconvinced of the need for additional funding. The Administration believes that there are enough incentives (savings and efficiencies) associated with the development of student identifiers.

Given the importance of supporting statewide data development, *staff recommends* that CDE provide additional justification to the Subcommittee to support their proposal. For example, the CALPADS FSR estimated LEA costs of reporting data to be approximately \$20.3 million or approximately \$3.30 per student. Another CSIS survey estimated LEA costs of \$3.00 per student, or \$18.0 million, to maintain student identifiers.

#### **SUGGESTED QUESTIONS:**

1. *To CDE and DOF: What is the appropriate level of LEA support for maintaining student level data in order to best prepare for CALPADS implementation?*
2. *To CDE: How will integration of CSIS and CALPADS proceed in the coming years? Will CSIS continue as CALPADS develops? Does CDE have a transition plan?*

## Appendix A.

### Excerpts from CDE News Release, March 28, 2006:

#### *Estimated Number and Percentage of Students in the Class of 2006 Passing Both CAHSEE Sections through the November 2005 Administration*

Group	Grade 10	Grade 11	Grade 12	Not Yet Passed	Revised Total	Grade 10	Grade 11	Grade 12	Cumulative Passing Rate	Not Yet Passed
All Students	295,226	67,810	19,933	47,925	430,894	68.5%	15.7%	4.6%	88.8%	11.1%
Females	150,818	32,268	9,475	23,074	215,635	69.9%	15.0%	4.4%	89.3%	10.7%
Males	144,356	35,430	10,401	24,954	215,141	67.1%	16.5%	4.8%	88.4%	11.6%
Asian	34,709	4,583	1,383	2,757	43,432	79.9%	10.6%	3.2%	93.7%	6.3%
Hispanic	92,362	33,249	10,292	30,277	166,180	55.6%	20.0%	6.2%	81.8%	18.2%
African American	16,891	6,893	2,236	6,609	32,629	51.8%	21.1%	6.9%	79.8%	20.3%
White, non-Hispanic	133,650	18,921	4,786	5,948	163,305	81.8%	11.6%	2.9%	96.3%	3.6%
Economically Disadvantaged	88,918	32,524	9,702	29,714	160,858	55.3%	20.2%	6.0%	81.5%	18.4%
English Learner	24,783	17,032	5,996	21,376	69,187	35.8%	24.6%	8.7%	69.1%	30.9%
Special Education	7,993	6,675	--	--	14,668	--	--	--	--	--

As part of its analyses, HumRRO reviewed 94,804 grade 12 answer documents from the fall (September and November) 2005 CAHSEE administrations. The estimated number of students tested during this time was 92,909, after information was combined across multiple documents for the same student. Previous CAHSEE results (from 2004-05) were identified and merged for 65,130 of these students (70%). The remaining 27,779 students could not be matched due to the lack of a unique student identifier.

Tables 2, 3, and 4 provide the passing rate estimates as of January 2006, by school year, for students in the class of 2006. To account for fluctuations in the tested population, several adjustments were made to previous estimates of passing rates, including:

Including 1,597 students from the fall 2005 administrations who were tested as sophomores in 2004, had not tested as juniors and had been dropped from the June 2005 counts.

Removing 22,327 students in special education programs who had not passed the CAHSEE by June 2005 and are now exempted from having to pass for one year by the passage of Senate Bill 517.

Adjusting counts by demographic group to reflect differences between students in the June 2005 file not found in the fall 2005 records and students in the fall 2005 file who were not matched to earlier records.

Except for differences related to the adjustments outlined above, the current estimates of CAHSEE passing rates are comparable to previous estimates provided by HumRRO. Please see HumRRO's *Year 6 Independent Evaluation Report (September 30, 2005)* for details about passing rates at the end of the 2004-05 school year.

Estimates of the number of students who have not yet passed both sections reflect the best available information about students who are still trying to pass the CAHSEE.

*Source: California Department of Education; Analysis by Human Resources Research Organization (HumRRO), the independent evaluator for California High School Exit Exam (CAHSEE).*

## Appendix B.

California State Auditor/Bureau of State Audits  
Summary of Report 2005-116 - January 2006

### **California K-12 High-Speed Network: *The Network Architecture Is Sound, but Opportunities Exist to Increase Its Use***

#### **AUDIT HIGHLIGHTS**

*Our review of the California K-12 High-Speed Network (High-Speed Network) found that:*

- *The State most likely spent less on the building and operation of the High-Speed Network by expanding the existing infrastructure used by the University of California and other higher education institutions than it would have spent for a separate network with comparable services.*
- *A study conducted by our technical consultant in 2005 found that the High-Speed Network has adequate bandwidth for potential growth but is not overbuilt. Furthermore, our technical consultant found no compelling technical or financial reason to abandon the existing High-Speed Network.*
- *Because of the lack of specific performance measurements in state law and because the Imperial County Office of Education (ICOE), which currently administers the project is in the early stages of developing a suitable plan for measuring the success of the High-Speed Network, it is difficult to determine whether the network accomplishes the Legislature's goals.*
- *As of June 30, 2005, the Corporation for Education Network Initiatives in California (CENIC) the nonprofit that built and currently operates the network, held \$13.6 million in High-Speed Network Funds and it expects to receive an additional \$3.6 million related to telecommunication discounts in fiscal year 2005-06. These funds are being used to keep the network operating in fiscal year 2005-06 or are held for future equipment replacement.*
- *Opportunities exist for ICOE to strengthen its agreements with CENIC to better protect the State's interests. Specifically, its agreements lack detailed service-level agreements, do not ensure that it retains ownership of tangible nonshared assets, and do not ensure that interest earned on advance payments made to CENIC or funds held by CENIC on its behalf accrue to the benefit of the High-speed Network.*
- *Our legal consultant reviewed the expenditure of funds by CENIC for the High-Speed Network and found that CENIC did not develop or acquire any assets that would have been eligible for protection under patent, copyright, or trade secret law.*

#### **RESULTS IN BRIEF**

This audit supports the basic conclusion that the State most likely spent less on the building and operation of the California K-12 High-Speed Network (High-Speed Network)<sup>1</sup> by expanding the existing infrastructure used by the University of California (UC) and other higher education institutions than it would have spent for a separate network with comparable services. It is also clear that, based on a study conducted by our technical consultant in 2005, the current High-Speed Network provides ample bandwidth to support current applications used by the K-12 education community, but it is not overbuilt. Furthermore, our technical consultant found no compelling technical or financial reason to abandon the existing High-Speed Network.

The High-Speed Network connects the vast majority of kindergarten through 12th grade (K-12) schools, school districts, and county offices of education statewide to each other, to California's universities and community colleges, and to the Internet. During fiscal years 2000-01 through 2003-04, the Legislature appropriated more than \$93 million to UC for the High-Speed Network. UC then contracted with the Corporation for Education Network Initiatives in California (CENIC), a nonprofit corporation that it helped create, to implement the project. In fiscal year 2004-05, the Legislature switched the funding over to the California Department of Education (Education), appropriating \$21 million in that year for the project. Education then selected the Imperial County Office of Education (ICOE) to act as lead agency for the High-Speed Network, and ICOE also contracted with CENIC. For fiscal year 2005-06 the Legislature did not appropriate any additional funding to the High-Speed Network.

The Legislature provided no specific goals to UC in spending the appropriations for the High-Speed Network project during fiscal years 2000-01 through 2003-04. Because both UC and CENIC stated that they intended to enter into an agreement that was a contract for services and not to acquire tangible equipment, UC did not include in its agreement with CENIC certain provisions. For example, the agreement between UC and CENIC did not contain provisions to address the ownership of tangible, nonshared assets, such as the equipment located at the county offices of education and school districts. Additionally, UC did not include a provision to limit the use of the interest earned on state appropriations for the High-Speed Network. Because CENIC views its agreement with UC as a contract for services, it considers the \$1.5 million in interest earned on these funds available to use for its other activities.

Although the Legislature shifted control of this project from UC to Education and ultimately to ICOE, it still has not enacted legislation that clearly prescribes the goals to be accomplished with these funds. Moreover, ICOE entered into agreements with CENIC under terms that were substantially similar to those contained in UC's agreement. Specifically, ICOE's agreements continue to lack detailed service-level agreements, which would state the specific level of service CENIC is required to provide. Additionally, its agreements do not ensure that ICOE retains ownership of tangible, nonshared assets, or that interest earned on advance payments that it makes to CENIC or funds that CENIC holds on ICOE's behalf accrue to the benefit of the High-Speed Network. As of June 30, 2005, the amount of funds available for the High-Speed Network, according to CENIC's accounting records, was \$13.6 million. In addition, in fiscal year 2005-06, CENIC expects to receive an additional \$3.6 million related to telecommunication discounts.

The variability in the level of state funding for the High-Speed Network project has negatively affected the efforts of the ICOE to expand network use in the K-12 education community. Specifically, ICOE has been unable to fund its Advancing Network Uses Grant Program. Finally, although it states that the 58 county offices of education, 887 school districts, and 7,039 schools are currently hooked up to the High-Speed Network, ICOE's and CENIC's success in promoting network use is impossible to measure because neither entity has set up a process to do so.

## **RECOMMENDATIONS**

To ensure that the High-Speed Network meets its expectations, the Legislature should consider enacting legislation that prescribes the specific goals and outcomes it wants from the High-Speed Network project.

To ensure that the High-Speed Network is appropriately managed, Education should ensure that ICOE includes the appropriate service-level agreements in its ongoing contracts with CENIC and other service providers for the High-Speed Network project.

To ensure adequate protection of the State's interest in tangible, nonshared assets, Education should direct ICOE to transfer ownership of these types of assets to the State.

To ensure that the interest earned on advance payments made to CENIC, or funds that CENIC holds on ICOE's behalf are used to benefit the High-Speed Network, Education should direct ICOE to amend its agreement with CENIC to stipulate the allowable use of the interest earned.

Finally, Education should ensure that ICOE develops a method to measure the success of the High-Speed Network.

## **AGENCY COMMENTS**

UC indicated that it is pleased with the overall conclusions of our report. Education and ICOE stated that they look forward to working with the other segment partners and CENIC to fully address the recommendations of the State Auditor. CENIC believes that the report provides useful information that highlights its value to the educational institutions it serves and that the report supports its belief that it can serve the unique needs of the education community more cost effectively than any other public or private organization.

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The California K-12 High-Speed Network was originally named the Digital California Project: K-12 Statewide Network when it was started in fiscal year 2000-01. In fiscal year 2004-05, when stewardship of the network was given to the Imperial County Office of Education, the aspects of the network applicable to K-12 participants were then titled the K12HSN. We call it the High-Speed Network throughout this report.

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